

LITCHFIELD DISTRICT LIBRARY

AUDIT REPORT

MARCH 31, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>LITCHFIELD DISTRICT LIBRARY</b>	County <b>HILLSDALE</b>
Audit Date <b>3/31/04</b>	Opinion Date <b>3/23/05</b>	Date Accountant Report Submitted to State: <b>3/28/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**BAILEY, HODSHIRE & COMPANY, PC**

Street Address

**PO BOX 215**

City

**JONESVILLE**

State

**MI**

ZIP

**49250**

Accountant Signature

*Gregory J. Bailey*

Date

**3/28/05**

## CONTENTS

### INDEPENDENT AUDITOR'S REPORT

### FINANCIAL STATEMENTS

Combined Statement of Assets, Liabilities and Fund Balances - Cash Basis All Fund Types and Account Groups.....	2
Statement of Revenue, Expenditures and Changes in Fund Balance - Cash Basis General Fund.....	3
Statement of Revenue, Expenditures and Changes in Fund Balance - Cash Basis General Fund - Budget and Actual.....	4
Notes to Financial Statements.....	5 - 7

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Litchfield District Library  
Litchfield, Michigan

We have audited the financial statements of the Litchfield District Library as of and for the year ended March 31, 2004. These financial statements are the responsibility of the Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Litchfield District Library prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Michigan, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of the Litchfield District Library as of March 31, 2004, and the revenue it received and expenditures it paid for the year then ended, on the basis of accounting described in Note 1.

*Bailey, Hodshire & Company, P.C.*

Jonesville, Michigan  
March 23, 2005

LITCHFIELD DISTRICT LIBRARY  
COMBINED STATEMENT OF ASSETS, LIABILITIES AND  
FUND BALANCES - CASH BASIS  
ALL FUND TYPES AND ACCOUNT GROUPS  
MARCH 31, 2004

	Governmental <u>Fund</u>	Account <u>Group</u>	Total
	General <u>Fund</u>	General Fixed <u>Assets</u>	(Memo Only)
ASSETS			
Cash on Hand	\$ 25	\$ 0	\$ 25
Cash - Checking	1,344	0	1,344
Cash - Savings	47,827	0	47,827
Furnishings and Equipment	<u>0</u>	<u>48,457</u>	<u>48,457</u>
Total Assets	<u>\$ 49,196</u>	<u>\$ 48,457</u>	<u>\$ 97,653</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Payroll Taxes Withheld	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Total Liabilities	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Fund Balances:			
Unreserved/Undesignated	\$ 49,196	\$ 0	\$ 49,196
Invested in General Fixed Assets	<u>0</u>	<u>48,457</u>	<u>48,457</u>
Total Fund Balances	<u>\$ 49,196</u>	<u>\$ 48,457</u>	<u>\$ 97,653</u>
Total Liabilities and Fund Balances	<u>\$ 49,196</u>	<u>\$ 48,457</u>	<u>\$ 97,653</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD DISTRICT LIBRARY  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCE - CASH BASIS  
GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2004

REVENUE	
Property Tax Millage	\$ 49,879
Penal Fines	11,066
State Aid	316
Governmental Contributions:	
Scipio Township	0
Memorials	7,277
Interest Earned	198
Other - Fines, Fees, etc.	<u>4,885</u>
Total Revenue	<u>\$ 73,621</u>
EXPENDITURES	
Wages	\$ 29,931
Social Security Tax	2,311
Insurance	1,396
Utilities	2,775
Internet	665
Rent	2,400
Circulation Materials	10,272
Supplies - Office	934
Supplies - Cleaning	83
Outside Service - Cleaning	1,400
Outside Service - Bookkeeping	1,650
Repairs	352
Woodlands - Fees & Workshops	1,007
Mileage Reimbursement	893
Advertising & Promotion	754
Miscellaneous	1,345
Capital Outlay	<u>1,299</u>
Total Expenditures	<u>\$ 59,467</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ 14,154
FUND BALANCE - April 1, 2003	<u>35,042</u>
FUND BALANCE - March 31, 2004	<u><u>\$ 49,196</u></u>

The accompanying notes are an integral part of this statement.

LITCHFIELD DISTRICT LIBRARY  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES  
IN FUND BALANCE - CASH BASIS  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
REVENUE			
Property Tax Millage	\$ 41,000	\$ 49,879	\$ 8,879
Penal Fines	10,000	11,066	1,066
State Aid	400	316	(84)
Governmental Contributions:			
Scipio Township	200	0	(200)
Memorials	1,000	7,277	6,277
Interest Earned	500	198	(302)
Other - Fines, Fees, etc.	<u>12,250</u>	<u>4,885</u>	<u>(7,365)</u>
Total Revenue	<u>\$ 65,350</u>	<u>\$ 73,621</u>	<u>\$ 8,271</u>
EXPENDITURES			
Wages	\$ 35,408	\$ 29,931	\$ (5,477)
Social Security Tax	2,712	2,311	(401)
Insurance	1,400	1,396	(4)
Utilities	3,000	2,775	(225)
Internet	500	665	165
Rent	2,400	2,400	0
Circulation Materials	8,750	10,272	1,522
Supplies - Office	1,500	934	(566)
Supplies - Cleaning	100	83	(17)
Outside Service - Cleaning	1,680	1,400	(280)
Outside Service - Bookkeeping	1,850	1,650	(200)
Repairs	701	352	(349)
Woodlands - Fees & Workshops	1,100	1,007	(93)
Mileage Reimbursement	1,000	893	(107)
Advertising & Promotion	800	754	(46)
Miscellaneous	1,000	1,345	345
Capital Outlay	1,299	1,299	0
Restoration	<u>150</u>	<u>0</u>	<u>(150)</u>
Total Expenditures	<u>\$ 65,350</u>	<u>\$ 59,467</u>	<u>\$ (5,883)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	\$ 0	\$ 14,154	\$ 14,154
FUND BALANCE - April 1, 2003	<u>35,042</u>	<u>35,042</u>	<u>0</u>
FUND BALANCE - March 31, 2004	<u>\$ 35,042</u>	<u>\$ 49,196</u>	<u>\$ 14,154</u>

The accompanying notes are an integral part of this statement.

LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Litchfield District Library is located in the City of Litchfield, Hillsdale County, Michigan and is governed by a library board consisting of six (6) trustees. Three members are appointed by the City of Litchfield and three are appointed by Litchfield Township. The Library was organized in accordance with the provision of Act 164 of the Michigan Public Acts of 1922, as amended.

Basis of Presentation

The accounts of the Library are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The following funds and account groups are used by the Library:

Governmental Funds

General Fund - The General Fund is the general operating fund of the Library. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Account Group

General Fixed Assets Group of Accounts - This account group presents fixed assets of the Library used in its general operations.

Total columns on the combined statements are captioned "memo only" to indicate that they are presented only to aid in financial analysis. Interfund eliminations have not been made in the aggregation of this data; therefore, it is not comparable to a consolidation.

Basis of Accounting

The library records are maintained on the cash basis system of accounting. Under this basis, income is recorded when received and expenses are recorded when the outlay of cash is made.

Budgetary Data

The Library adopted a budget for the General Fund on the cash basis of accounting. The Library Board may amend the budget when unexpected modifications are required in estimated revenues and appropriations. The amended budget is presented in these financial statements. Encumbrance accounting is not used, and all annual appropriations lapse at fiscal year-end.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets, Liabilities, and Fund Equity

Cash and investments are reported at cost.

Fixed assets are accounted for at cost, or if the cost is not practicably determinable, at estimated cost. Donated fixed assets are recorded at their estimated fair value at the time received. Governmental Fund fixed assets are recorded in the General Fixed Asset Account Group and are not depreciated.

2. NONCOMPLIANCE WITH STATE BUDGETING LAWS

The following General Fund accounts had expenditures in excess of budgeted amounts, which is a violation of State budgeting laws:

	<u>Budget</u>	<u>Actual</u>	<u>Over</u>
Internet	500	665	165
Circulation Materials	8,750	10,272	1,522
Miscellaneous	1,000	1,345	345

3. CASH AND INVESTMENTS

Following are the components of the Library's bank deposits at March 31, 2004:

Checking Account	\$ 1,344
Savings Account	<u>47,827</u>
	<u>\$ 49,171</u>

The carrying amount of the Library's bank deposits was \$49,171 and the bank's balance was \$50,204 at March 31, 2004. The entire bank balance was covered by federal depository insurance.

State statutes authorize the Library to invest funds in one or more of the following: (a) bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of a Federally insured financial institution which maintains a principal office or branch office in the state of Michigan; (c) commercial paper rated within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; (d) United States government or Federal agency obligation repurchase agreements; (e) banker's acceptance of United States banks; (f) obligations of the state of Michigan or any of its political subdivisions that are rated as investment grade by not less than one standard rating service; (g) mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles which are legal for investment by a public corporation; (h) obligations described above if purchased through an interlocal agreement under the Urban Cooperations Act of 1967; (i) investment pools organized under the Surplus Funds Investment Pool Act, 1982; (j) investment pools organized under the Local Government Investment Pool Act, 1985. As of March 31, 2004, the Library's investments are in accordance with statutory authority.

LITCHFIELD DISTRICT LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2004

4. PROPERTY TAXES

On November 7, 1995, the voters of Litchfield Township and the City of Litchfield approved a special millage for the Litchfield District Library not to exceed 1 mill on the state taxable value of all properties within the two jurisdictions. Each year, property taxes are collected by the respective treasurers of Litchfield Township and the City of Litchfield, then the appropriate portion is remitted to the Library. Total property tax revenue for the year ended March 31, 2004, was \$49,879.

5. CHANGES IN GENERAL FIXED ASSETS

A summary of changes in fixed assets follows:

	Balance 4-1-03	Additions	Deductions	Balance 3-31-04
Furnishings & Equipment	\$ 47,158	\$ 1,299	\$ 0	\$ 48,457

6. UNEMPLOYMENT TAXES

The Library is a reimbursing employer to the Michigan Unemployment Insurance Agency and, as such, is responsible to pay the Agency for those benefits paid and charged to its account. As of March 31, appropriate liabilities have been recorded for all claims paid by the Agency. However, no provision has been made for future payments that might result from claims in process or not filed.

7. LEASE

The Library leases space in a building in downtown Litchfield owned by a local individual. Rent is payable on the first day of each month in the amount of \$200 under a verbal agreement.

8. RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Library has purchased commercial insurance for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment and building contents), workers compensation, and other appropriate coverages. There has been no significant reduction in insurance coverage, and settled claims have not exceeded the amount of insurance coverage in any of the past 3 years.

# Bailey, Hodshire & Company, P.C.

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March 23, 2005

Board of Trustees  
Litchfield District Library  
Litchfield, MI 49252

To the Board of Trustees:

As a result of our audit of the Library records for the year ended March 31, 2004, we would like to make the following comments and recommendations:

1. Internal Revenue Service regulations require the issuance of Form 1099 for payments of \$600 or more in a year to individuals for non-employee compensation or for rent. The Library issued the proper forms for non-employee compensation, but a form was not issued for the rent paid to the owner of the library building.
2. As discussed in the notes to the financial statements, a few accounts had expenditures in excess of budgeted amounts, which is a violation of State budgeting laws. We recommend that the budget be reviewed more frequently by the Board and amended when necessary.
3. In June, 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

A Management Discussion and Analysis (MD&A) section providing an Analysis of the Library's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Library's activities, including reporting depreciation on fixed assets.

The general provisions of GASB No. 34 must be implemented by the Library for fiscal year ending March 31, 2006 (your next required audit year). There is sufficient information on file for this implementation, so no specific action is required by the Library at this time.

If we can be of assistance in regard to these recommendations, please contact our office.

Respectfully,

*Bailey, Hodshire & Company, P.C.*  
Bailey, Hodshire & Company, P.C.  
Certified Public Accountants